GOMB

KEY BUDGET DRIVER FRAMEWORK

Infrastructure: Transportation

Maintaining Utah's competitive edge and quality of life requires that we proactively manage and address the multiple demands being placed on limited resources—the taxpayer dollar. Utah's growing and changing population along with new dynamics in our revenue streams places an increased demand on everything from infrastructure to education and the state's natural resources to our correctional system. Reacting to new demands and changes within the economy without a proactive approach to budget design and strategy could potentially leave Utah vulnerable to a diminished future prosperity.

For Utah, there are six key elements that drive approximately 80 percent of expenditures: Corrections, Employee Compensation and Liabilities, Higher Education, Infrastructure (transportation, buildings, and debt), Medicaid, and Public Education. The ability to develop sound planning strategies and to resolve the challenges within these key areas is fundamental to a thriving economy. These planning strategies, or what we in GOMB refer to as ***key budget drivers****, have been developed in consultation with subject-matter experts and key stakeholders.*

Overview of Transportation Budget Driver

The basic purpose of transportation is to move people and goods from one place to another but transportation also influences economic growth. An efficient transportation system can improve the productivity of the economy. Transportation can impact where businesses locate and where people live. These decisions affect land use patterns, traffic congestion, use of natural resources, air quality, and Utah's overall quality of life. Utah's population is expected to increase over 60 percent by 2040 which will put great pressure on the existing transportation infrastructure and will increase the demand for new roads, highways, bridges, and other methods of transportation. Individuals should be encouraged to make sustainable and responsible transportation decisions such as using public transportation, fuel efficient vehicles, or living near their places of work.

There are over 45,000 total miles of public roads in Utah and construction/ maintenance costs continue to increase. Current funding sources are not meeting maintenance needs and will not be able to accommodate the additional capacity necessary for Utah's growing population. Transportation funding has fallen short of need—resulting in an increased amount of General Fund revenue being used to cover the shortfall. For fiscal year 2013 and beyond, 30 percent of all sales tax revenue growth is dedicated for transportation. This new earmark, on top of other transportation tax diversions already in place, results in fewer available resources to address other state needs.

Objectives of Transportation Policy and Budget Decisions

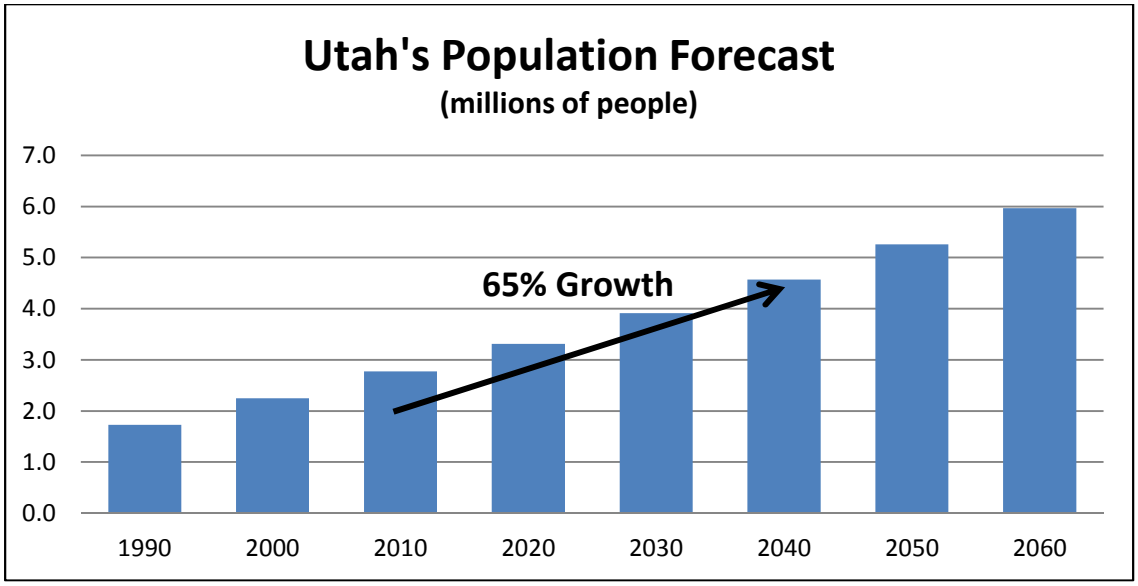
- Cost-effective transportation decisions that support the maintenance of the existing infrastructure and plans that support future growth while also considering transportation's role in shaping economic growth.
- Priority should be given to the maintenance of the existing infrastructure and cost-effective improvements that optimize mobility over the development of new roads, highways, and bridges. Delayed maintenance results in more costly repairs.

- Create stable, long-term funding sources that will meet current and future demands.
- Encourage individuals to make sustainable and responsible decisions around transportation usage.

Significant Issues, Potential Challenges and Risks

Population Growth

Based on U.S. Census data, from 2010 to 2012 Utah had the third largest population growth among states at 3.63 percent. Current projections anticipate that Utah's population will have more than doubled by 2060. Over the next three decades, Utah's population is expected to increase over 65 percent.



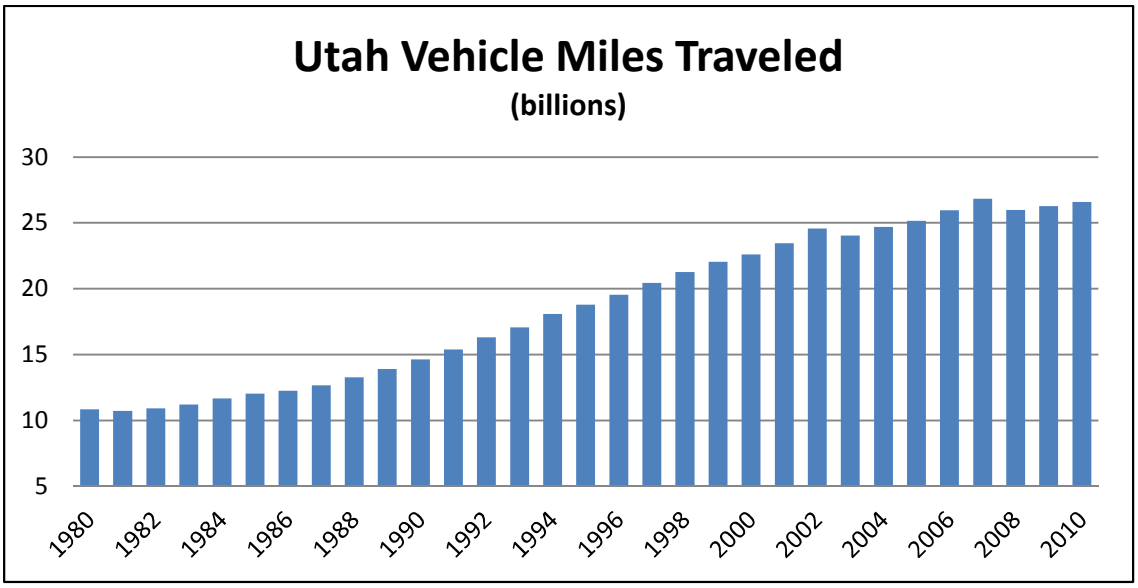
Source: "2012 Baseline Projections." Governor's Office of Management and Budget (2012). http://gomb.utah.gov/budget-policy/demographic-economic-analysis/

This significant upsurge will add increasing strain on Utah's existing infrastructure and will require additional capacity to accommodate the nearly 1.8 million more people that will live, work, and recreate in Utah. The Unified Transportation Plan, a comprehensive state plan developed by the Utah Department of Transportation and other major planning organizations, identified $28 billion dollars in additional highway capacity needs and $21 billion dollars in highway maintenance, operations, and preservation over the next 30 years in order to accommodate the growth in population. Current transportation funding stream estimates indicate there will not be sufficient revenue generated to support the growth in population.

Vehicle Miles Traveled

Vehicle Miles of Travel (VMT) figures represent the annual average of vehicles traveling on the various roadways in Utah and are routinely used to measure traffic on roads and bridges. Between 1990 and

2010, Utah experienced an 82 percent increase in travel, as measured by VMT, outpacing Utah's population growth of 60 percent. In the same 20 year period, total lane miles in Utah increased by only 4 percent.



Source: U.S. Highway Statistics Office of Highway Policy Information 2012
http://www.fhwa.dot.gov/policyinformation/index.cfm

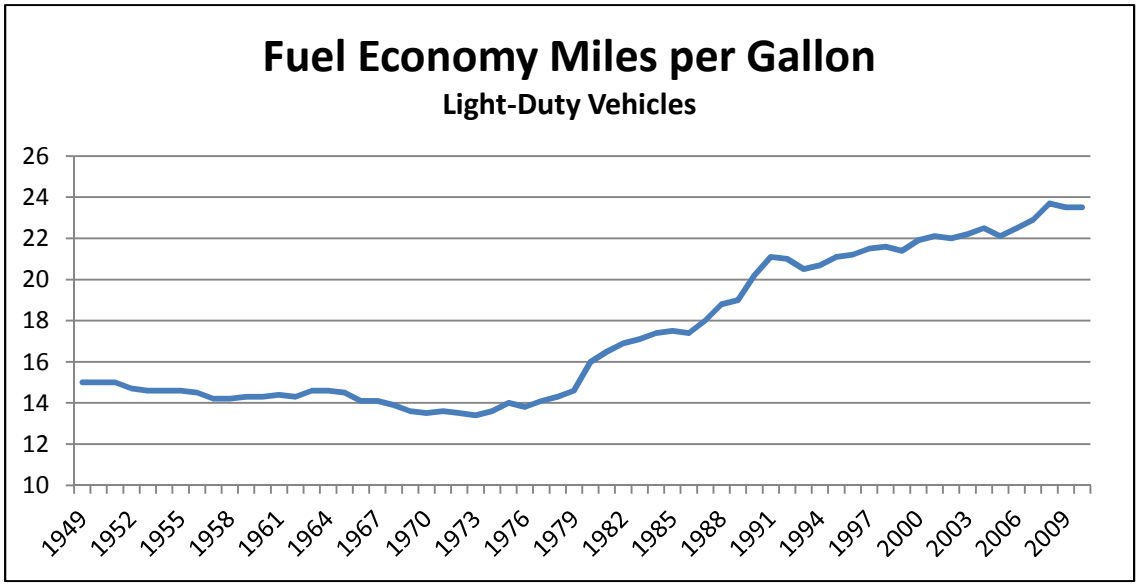
Despite the recent flattening of Utah's VMT, this large increase in vehicle miles traveled is adding a great deal of pressure on the state's existing transportation infrastructure. Historically, VMT tracked closely with economic activity and the price of gasoline; however, it is possible that the leveling off represents a structural change in driving habits that could continue in the future.

Fuel Efficiency

Fuel efficiency for light duty vehicles, as measured by miles per gallon, has increased by 8.5 miles since 1949. Since 1997, the year of Utah's last motor fuel tax increase, efficiency has increased by two miles. Vehicles with a 15 gallon gas tank are able to wear down the roadways with an additional 30 miles of driving before stopping to be refueled and thereby paying an additional gas tax. Fuel efficiency increases have eroded the purchasing power of fuel tax revenues that are based on a cents per gallon basis. Federal fuel efficiency standards are expected to increase in the near future.

Alternate Fuels

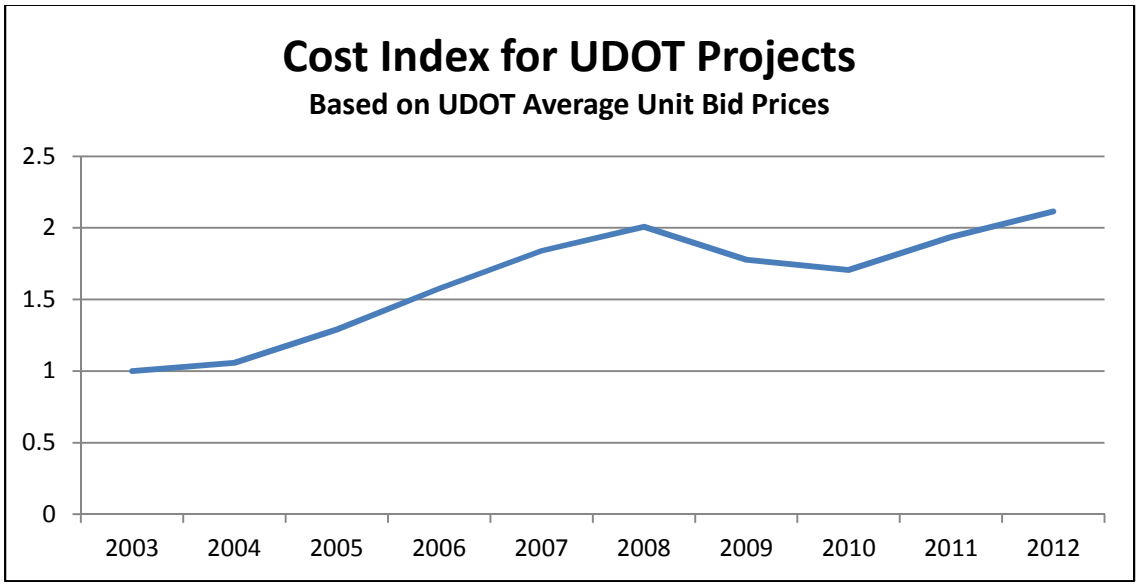
Increased use of alternate fuel vehicles is a component to help improve air quality throughout Utah's urbanized areas. While alternate fuel vehicles currently represent a small portion of total vehicles on the road, the rapid growth in the manufacture and sale of alternate fuel vehicles will increase the total share of these vehicles on our roads. While alternate fuel vehicles emit less pollutants and help improve air quality, these vehicles still contribute to traffic congestion and roadway wear and tear. At the same time, alternate fuel vehicles contribute less to the cost of roadway maintenance and construction since alternate fuel is taxed at a reduced rate or not at all.



Source: U.S. Energy Information Administration
http://www.eia.gov/totalenergy/data/annual/showtext.cfm?t=ptb0208

Inflation

Another factor contributing to increased transportation spending is inflation and its impact on construction costs. The Utah Department of Transportation Construction Cost index is composed of seven indicator items that cover roadway excavation, surfacing, and structures.



Source: Utah Department of Transportation Construction Cost Index Report
http://www.udot.utah.gov/main/f?p=100:pg:0:::1:t,v:1400

From 2003 to 2012 the cost index more than doubled, which translates into a large decline in the purchasing power of revenue. This puts strain on the ability to meet transportation needs with existing funding.

Funding

Utah Department of Transportation funding comes from several sources: bonds, federal funding, fuel taxes, general sales tax, licenses, permits and fees, and various other sources. For fiscal year 2012, bond proceeds made up 29 percent of the total; however, this source has the most fluctuation because large projects are not initiated every year. Federal funding made up 21 percent of the total and is a more stable source of funding. However, the funds may be impacted by future decreases depending on how the federal government deals with problems associated with the Federal Highway Trust Fund. The largest state tax revenue source is the motor and special fuel tax which made up 16 percent of the total. For fiscal year 2013 and beyond, sales and use taxes will surpass motor and special fuel taxes because of the new 30 percent sales tax earmark.

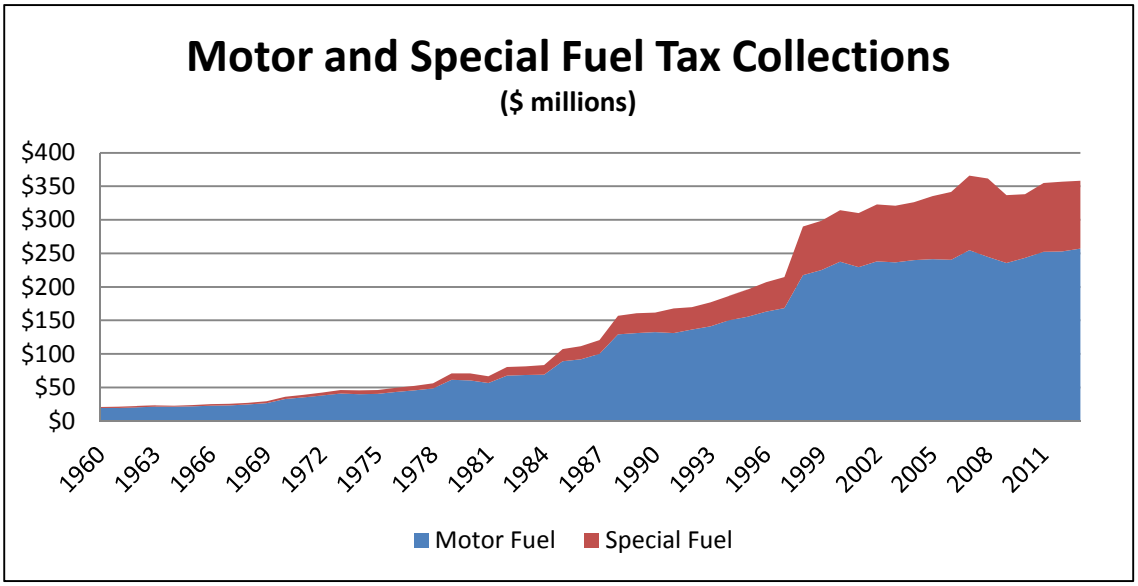
Transportation Funding FY2012 $2.2 Billion

Source	Amount	Percent
Bonds	$646	29%
Federal Contracts & Grants	$478	21%
Motor & Special Fuel	$357	16%
Sales & Use Tax	$335	15%
Licenses, Permits & Fees	$168	7%
Cooperative Agreements	$131	6%
Mineral Lease	$61	3%
Charges for Services and Royalties	$40	2%
Other	$16	1%
Other Taxes	$10	0%
General Fund	$3	0%

Source: Utah Department of Transportation Annual Statistical Summary
http://www.udot.utah.gov/main/f?p=100:pg:0:::1:T,V:1023,

The current motor and special fuel tax rate is 24.5 cents per gallon and has not been increased since 1997. Special fuel is any fuel used for motor vehicle operation on Utah highways or waterways that is not taxed as motor or aviation fuel. This includes diesel, kerosene, compressed natural gas, liquefied natural gas, and other fuel types. The chart below shows motor and special fuel tax collections from fiscal year 1960 to 2013.

Tax collections peaked in fiscal year 2007 at $366 million and have since average around $350 million. This flattening of revenues corresponds with the trends in vehicle miles traveled and the increase in fuel efficiency discussed previously. If this trend continues, the Utah Department of Transportation will experience increasing pressure to meet transportation infrastructure needs with existing revenue streams.



Source: Utah State Tax Commission, Economic and Statistics Unit. Historical Data http://tax.utah.gov/econstats/historical

Guiding Principles for Transportation Budget and Policy Decisions

- The creation of an efficient transportation system and funding streams that balance additional capacity (additional highways, railways, buses) with the maintenance of the existing transportation infrastructure. Utah should not develop new roads, highways, and bridges that cannot be maintained. All decisions should be made in the context of other state needs and in an open and collaborative process that involves all stakeholders.
- Encouraging individuals to make sustainable and responsible decisions around transportation use.

Areas Requiring Additional Research and Consideration

- Identify and prioritize short and long-term needs and projects with stakeholders.
- Create stable funding sources that will meet current and future transportation needs.
- Explore intelligent highway systems, congestion pricing, and other innovative methods that will allow the Utah Department of Transportation to meet the state's future transportation needs.